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1978

Fruehauf
Annual
Report

50th
Anniversary
Year

50





Annual Meeting of Shareholders

Contents

The Annual Meeting of Shareholders of the Fruehauf Trailer Company of Canada Limited will be held on Friday, April 20, 1979, at 2.30 p.m. (Toronto time) in the Board Room of National Trust Company Limited, 3rd Floor, 21 King Street East, Toronto, Ontario.

Proxies will be solicited from Shareholders when the Notice of Annual Meeting and Proxy Statements are mailed on or about March 30, 1979.

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Head Office:
Fruehauf Trailer Company
of Canada Limited
2450 Stanfield Road
Mississauga,
Ontario L4Y 1S3

Financial Highlights

	1978	1977
Net Sales	\$75,382,328	\$58,657,252
Earnings before Taxes on Income	9,700,934	7,185,551*
Percent to Sales	12.9	12.3
Net Earnings	5,670,934	4,419,551*
Percent to Sales	7.5	7.5
Net Earnings per Share	2.10	1.63*
Dividends per Share	.45	.42-1/2
Book Value per Share	16.23	14.59
Total Assets	57,125,200	46,574,491
Working Capital	38,115,160	34,725,033
Number of Shareholders	419	428
Number of Employees	1,008	779

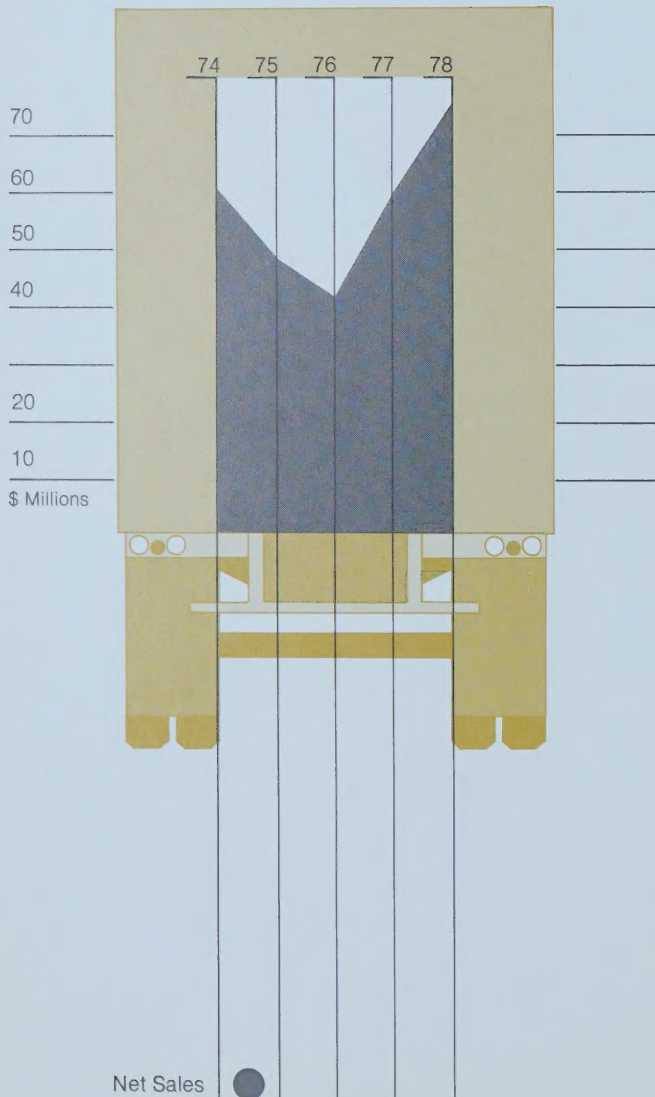
*Includes Extraordinary Gain 1977

Roll On Canada

Pictured opposite is a Van type trailer heading into the Canadian Rockies. This type unit will be produced at the new manufacturing plant.

Under the caption "Roll On Canada" this picture is currently being shown in cross Canada advertising in various trade periodicals.

Report on Operations 1978



To Our Shareholders:

This year, 1978, marks our 50th Anniversary of growth with Canada. It is appropriate that your Company attained new records in both sales and earnings.

Total sales were \$75,382,328 an increase of 28% over the preceding year. Net earnings of \$5,670,934 are also up 28% over net earnings in the 1977 year. Current earnings are equal to \$2.10 per share and compare to the prior year's \$1.63 in total, or \$1.48 exclusive of a non recurring capital gain in that year.

Cash Dividends

During the year we continued our semi annual dividend payments with two payments of 22-1/2 cents per share. The first dividend was paid March 28, 1978 to holders of record March 7, 1978. The second dividend was paid September 22, 1978 to holders of record August 30, 1978.

On February 26, 1979, based on final results for 1978, a dividend of 22-1/2 cents per share has been declared. This dividend is payable March 28, 1979 to holders of record as of March 6, 1979.

Operation Highlights

The year commenced with a good backlog of production orders which provided reasonable prospects for improved volume. The first half of the year generated a normal order input; starting with the third quarter the rate of incoming orders gained momentum. Throughout the entire second half of 1978 we have operated the main production facility on a two and three shift basis in an attempt to satisfy demand.

The high level of productivity had a beneficial effect on the absorption of fixed costs. This coupled with continuing controls over expense items resulted in the increased earnings.

Costs and Expenses

Cost of products and services sold increased in response to the higher sales volume. However, cost of products sold in relationship to sales was 82.5% in the current year, down from 83.2% a year earlier. While material components and wages reflected a substantial increase, the benefits commensurate with the high levels of production had an offsetting effect.

Selling and administrative expenses increased 15% from the previous year. Al-

though the higher volume required higher wage and commission expenses, the economies of scale were evident; expenses were equivalent to 5.7% to sales in 1978 in comparison to 6.3% in 1977.

Financing Operations

Our participation in financing and leasing operations continues to have a stabilizing effect on earnings. While we have been active in this field for many years, the general competitiveness of the last half decade has affected our growth in both operations. Canadian banks have become substantially more aggressive with separate leasing and finance arms and numerous subsidiaries of foreign financial institutions are now also deeply involved.

Finance revenue from note contracts was \$1,950,187 for the year, fractionally above the \$1,907,451 in 1977. Interest earned from short term investments was \$661,151 compared to \$528,175 in the prior year. Our investment in installment contracts of \$15,283,484 represents a 4.8% increase for the year, an improvement over a low 3/4% increase in the previous year. Equipment leased to customers at year end was

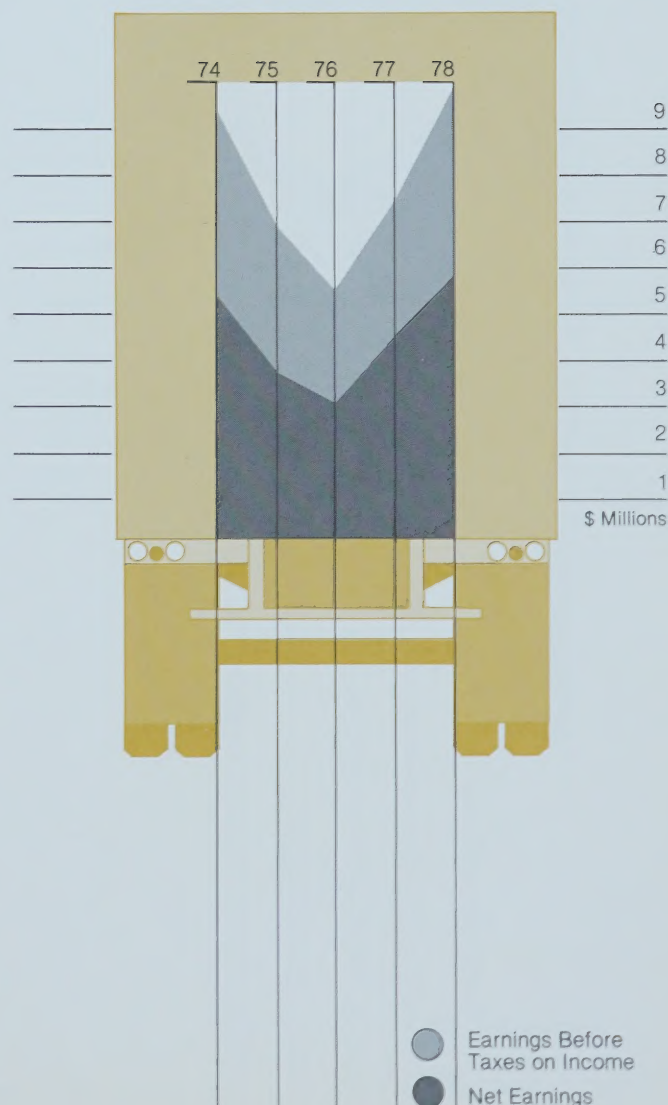
\$932,665, 10% above the earlier year.

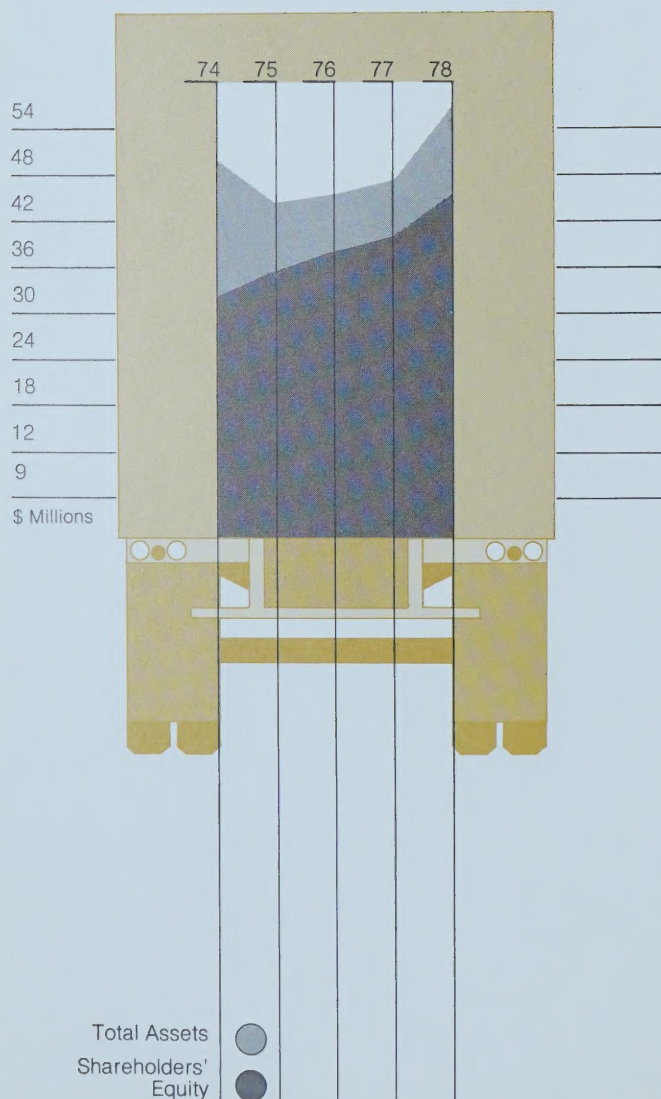
It is our intention to maintain efforts to expand both of these portfolios. The ability to offer a complete "one stop" sale, lease and finance service does present an attractive package for many of our customers.

Capital Expenditures and Depreciation

Expenditures on capital equipment during the year were \$1,406,844, up from \$487,349 a year earlier. For the most part the increase covers improvements to branch properties. All of our branches are in highly desirable locations and we follow a practise of ensuring that each is maintained as an efficient facility. During 1978 we purchased a 44 acre land parcel as the site for an additional manufacturing plant. Construction of the facility is planned for the coming year. In addition we purchased our Montreal branch, exercising the option available under a long term lease contract.

Depreciation of plant and equipment totalled \$477,760 in 1978 compared to \$450,868 in 1977, an increase of 6%. We depreciate our assets on a straight line basis over esti-





mated useful lives. For the most part we employ ten years for machinery, seven years for automotive equipment and forty years for buildings.

Depreciation of equipment leased to customers declined in the year to \$312,234, from \$461,312 in the preceding year. This reflects a sharp reduction during the early part of the year with substantial input late in the year, resulting in a net increase in the investment at year end.

Taxes

The increase in taxes on income primarily reflects this year's higher earnings. The effective tax rate of 41.5% compares to 38.4% in the preceding year. The prior year rate was somewhat lower than normal as a result of the sizeable extraordinary capital gain which attracted a negligible tax rate. However, the current year's rate benefits from a higher manufacturing and processing reduction and the 3% of inventories offset — these reductions are directly attributable to the increased level of production.

Financial Strength

Working capital increased \$3,390,127 in the year even though the total funds spent for dividends, leased equipment and property, plant and equipment doubled the prior period. At year end we had approximately \$8 million invested in short term marketable securities. While inventories and accounts receivable reflect increases over the previous year, the increases are proportional to the current

higher levels of sales and production.

The strength of our financial position is demonstrated by the current ratio. Current assets over current liabilities stands at a strong 4.0 to 1 times. We are in a most desirable position to undertake the major expansion planned.

Facilities, Products and Outlook

During the year we completed our planned renovations at the Montreal branch. By year end we were well advanced with improvements at Vancouver, the last portion of a five year upgrading of all branch facilities.

In last year's annual report we indicated our belief that Canada was on the threshold of a substantial growth period, through the 1980's. We continue to hold this belief particularly with regard to the transportation industry. Credit must be given to the Federal Government's incentives to stimulate transportation growth — the virtual elimination of Federal Sales Tax from new equipment in late 1974 and the extension in late 1978 of the 7% investment tax credit to qualifying long-haul transportation units. While the Canadian dollar continues to be depressed, this should only be a relatively short-term condition when viewed in the light of the country's tremendous potential in all phases of commercial and resource activity.

To ensure our participation in the future we intend to construct an additional manufacturing plant facility. After considerable research we purchased a 44 acre site at the

Town of Ingersoll in Southern Ontario. Plans for the facility and processes are now rapidly nearing completion. We are hopeful that we will be able to break ground by spring and complete the building and install the necessary tooling by the end of 1979. This commitment to our future is an undertaking of \$12 million. The building will be approximately 180,000 square feet, slightly less than the present main manufacturing location in Mississauga.

With the additional manufacturing facility devoted entirely to the van trailer, we will virtually double our unit production capacity. This increased capacity will enable us to participate fully in the higher volume of the 1980's. It will bring substantial benefits

to our customers, both in product improvement and shortened order-production-delivery time cycles.

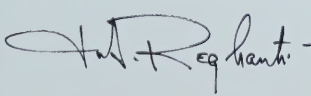
The 1978 year has been our 50th Anniversary with Canada. We cannot think of a more fitting way in which to commence our second half-century than to invest strongly in the future. We look forward with great enthusiasm to the coming decades and are confident in Canada's potential over the long haul.

The coming year, 1979, should also be a good year for Fruehauf-Canada. We are almost assured of running present facilities at their maximum capabilities. Our continuing programs of cost control should ensure a desirable return on investment.

Your directors express their appreciation to our employees and to our customers and shareholders. With their

loyalty and confidence in our activities and products we are assured of growth in the future.

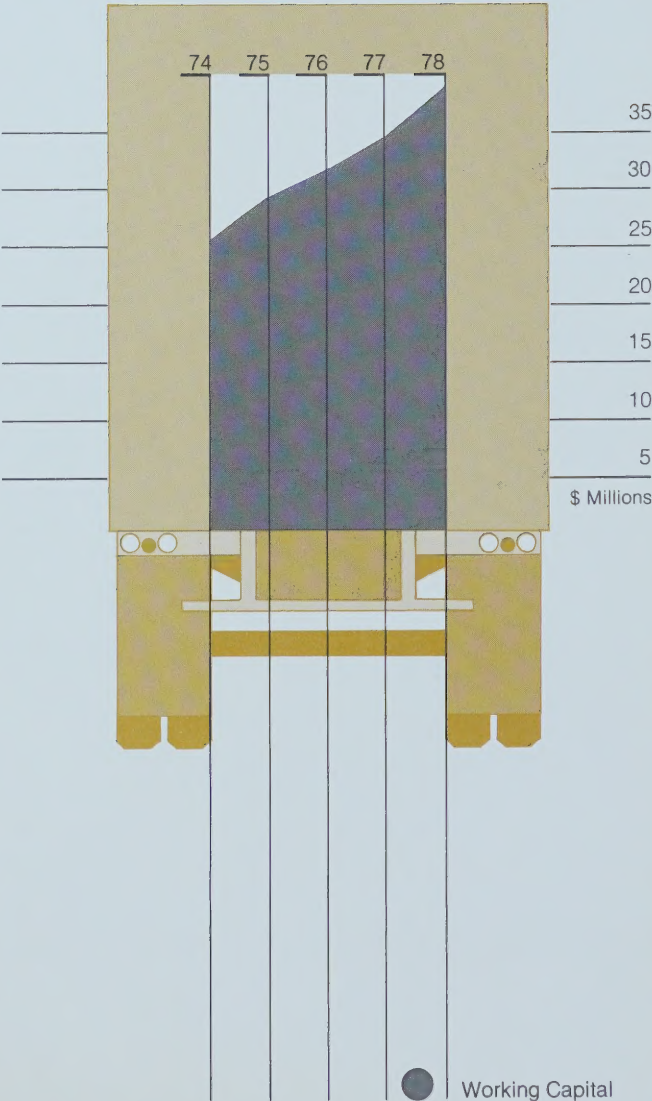
On Behalf of the Board



T.J. Reghanti, President



D.A. Grinstead, Vice President

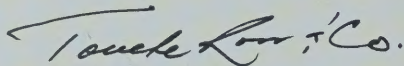


Auditors' Report

The Shareholders,
Fruehauf Trailer Company
of Canada Limited.

We have examined the balance sheet of Fruehauf Trailer Company of Canada Limited as at December 31, 1978 and the statements of net earnings, earnings retained for use in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Chartered Accountants

Toronto, Ontario,
February 2, 1979.

P.O. Box 12 - First Canadian
Place - 100 King Street West -
Toronto, Ontario M5X 1B3
Telephone (416) 364-4242 -
Telex 065-24310

Statement of Net Earnings

Revenues	1978	1977
Net sales	\$75,382,328	\$58,657,252
Finance and other interest	2,611,338	2,435,626
	77,993,666	61,092,878
Costs and Expenses		
Cost of products and service sold, other than items below	62,211,113	48,823,328
Selling and administrative expenses	4,282,337	3,716,877
Depreciation	789,994	912,180
Taxes other than taxes on income	1,009,288	866,643
	68,292,732	54,319,028
Earnings Before Taxes on Income and Extraordinary Item	9,700,934	6,773,850
Taxes on income		
Current	4,000,700	2,804,750
Deferred (credit*)	29,300	43,400*
	4,030,000	2,761,350
Earnings Before Extraordinary Item	5,670,934	4,012,500
Extraordinary item		
Gain on land expropriation, net of \$4,650 taxes	—	407,051
Net Earnings for the Year	\$ 5,670,934	\$ 4,419,551
Earnings per share		
Earnings before extraordinary item	\$2.10	\$1.48
Net earnings for the year	\$2.10	\$1.63

Balance Sheets

Assets	December 31, 1978	December 31, 1977
Current Assets		
Cash and short-term notes	\$ 8,206,385	\$ 6,446,664
Trade receivables		
Installment contracts (Note 1)	15,283,484	14,583,474
Accounts receivable	11,529,590	8,160,886
	26,813,074	22,744,360
Inventories (Note 2)	15,709,545	12,005,737
Prepaid expenses	73,992	56,634
Total Current Assets	50,802,996	41,253,395
Equipment Leased to customers (Note 3)	932,665	847,494
Property, Plant and Equipment		
Land	737,112	420,579
Buildings and equipment	5,739,322	4,982,630
Machinery and other equipment	4,653,327	4,417,566
	11,129,761	9,820,775
Less accumulated depreciation	5,740,222	5,347,173
	5,389,539	4,473,602
On behalf of the Board		
W.T. McDougall, Director		
T.J. Reghanti, Director		
Total Assets	\$57,125,200	\$46,574,491

Fruehauf Trailer Company of Canada Limited

(Incorporated under the Canada Corporations Act)

	December 31, 1978	December 31, 1977
Liabilities and Shareholders' Investment		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 7,508,732	\$ 3,604,690
Taxes on income (including deferred of \$1,808,700 in 1978 and \$1,717,300 in 1977)	2,940,238	1,931,054
Due to affiliated companies	2,238,866	992,618
Total Current Liabilities	12,687,836	6,528,362
Deferred taxes on income	518,300	580,400
Shareholders' Investment		
Capital stock		
Authorized 6,000,000 shares		
Issued and outstanding 2,705,775 shares	5,149,063	5,149,063
Earnings retained for use in the business	38,770,001	34,316,666
	43,919,064	39,465,729
Commitments and Contingent Liabilities (Notes 4 and 5)		
Total Liabilities and Shareholders' Investment	\$57,125,200	\$46,574,491

Years Ended December 31, 1978 and
December 31, 1977

Statement of Earnings Retained for use in the Business

	1978	1977
Balance at beginning of year	\$34,316,666	\$31,047,070
Net earnings for the year	5,670,934	4,419,551
	39,987,600	35,466,621
Cash dividends	1,217,599	1,149,955
Balance at end of year	\$38,770,001	\$34,316,666

Years Ended December 31, 1978 and
December 31, 1977

Statement of Changes in Financial Position

Source of Working Capital	1978	1977
Operations		
Earnings (before extraordinary item 1977)	\$ 5,670,934	\$ 4,012,500
Depreciation of equipment leased to customers	312,234	461,312
Depreciation of plant and equipment	477,760	450,868
(Decrease*) in deferred taxes on income	62,100*	125,800*
Total from Operations	6,398,828	4,798,880
Other		
Extraordinary item, proceeds	—	458,789
Retirement of equipment leased to customers	411,886	77,194
Disposal of plant and equipment, at net book value	13,147	12,559
	6,823,861	5,347,422
Application of Working Capital		
Cash dividends	1,217,599	1,149,955
Additions to equipment leased to customers	809,291	93,541
Additions to property, plant and equipment	1,406,844	487,349
	3,433,734	1,730,845
Net Increase in Working Capital for Year	3,390,127	3,616,577
Working Capital at Beginning of Year	34,725,033	31,108,456
Working Capital at End of Year	\$38,115,160	\$34,725,033

Summary of Accounting Principles**Inventories**

Inventory amounts are based upon physical determinations during the year and have been stated at the lower of cost or market prices. Cost prices are determined by the first-in, first-out method, and market prices represent the lower of replacement cost or estimated net realizable amount.

Equipment Leased to Customers

Lease rental payments are recognized as income over the period of the lease and the equipment is depreciated on a straight-line basis to a projected lease terminal value.

Property, Plant and Equipment

The Company records property, plant and equipment at cost. Depreciation is provided on a straight-line basis over the life expectancy of the assets. The estimated useful life of each major class of assets is as follows:

Buildings and equipment — 25-40 years

Machinery and other equipment — 5-10 years

Maintenance and repairs are charged against earnings as incurred.

Taxes on Income

The financial statements include an appropriate provision for taxes on income irrespective of when such taxes are payable. Profit from sales financed by installment contracts is recognized for financial reporting purposes in the year of sale; such profit is recognized for tax purposes as payments are received under the contracts. Since the installment contracts which give rise to the tax differences are current assets, the related deferred tax is shown as a current liability, although it may not be payable within one year. Non-current deferred income taxes result from the Company having claimed depreciation for tax purposes in excess of that charged to income in the financial statements.

Pensions

The Company has noncontributory pension plans covering substantially all employees. Current service costs of pension benefits are accrued and funded on a current basis. Past service costs are amortized and funded over periods not exceeding fifteen years.

Earnings Per Share

Earnings per share are calculated on the basis of the average number of shares outstanding during the year.

Note 1 — Installment Contracts

Installment contracts at December 31 are stated after deduction of deferred finance charges of \$3,043,391 for 1978 and \$2,871,293 for 1977, and include installments due after one year of approximately \$9,504,000 for 1978 and \$8,992,000 for 1977.

Note 2 — Inventories

	December 31, 1978	December 31, 1977
New trailers	\$ 2,071,210	\$ 2,546,971
Production parts, work in process and raw materials	8,610,211	4,846,533
Service parts and orders in process	3,532,565	3,131,352
Used trailers	1,495,559	1,480,881
	<u>\$15,709,545</u>	<u>\$12,005,737</u>

Note 3 — Equipment Leased to Customers

Equipment leased to customers at December 31 is stated at cost less accumulated depreciation of \$727,846 for 1978 and \$1,811,323 for 1977.

Note 4 — Long-Term Leases

The Company is lessee under long-term leases for sales and service branches requiring rental payments of approximately \$116,000 per annum. The Company has the right to purchase two of these properties and if these rights were exercised at December 31, 1978 the aggregate purchase price would approximate \$162,000.

Note 5 — Pensions

Based on actuarial valuations and estimates, unfunded service costs of pension plans at December 31 amount to approximately \$886,000 for 1978, \$852,000 for 1977. Unfunded vested benefits at December 31 approximate \$505,000 for 1978, \$603,000 for 1977. Total pension expense was \$401,000 in 1978 and \$359,000 in 1977.

Note 6 — Directors and Officers

Aggregate remuneration of the seven directors, as directors, amounted to \$1,200 in 1978 and 1977 and for the six officers amounted to \$169,000 and \$155,000 respectively. Four officers are also directors.

Statistical Summary

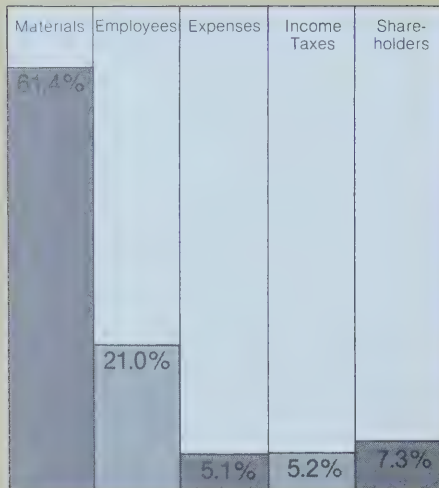
	1978	1977	1976	1975
Income Data				
Sales	\$75,382,328	\$58,657,252	\$40,872,708	\$47,161,334
Finance and Other Interest	2,611,338	2,435,626	2,588,410	2,320,268
Cost of Products and Service Sold	62,211,113	48,823,328	32,959,679	36,833,238
Per cent to Sales	82.5	83.2	80.6	78.1
Selling and Administrative Expenses	\$ 4,282,337	\$ 3,716,877	\$ 3,114,987	\$ 3,186,703
Per cent to Sales	5.7	6.3	7.6	6.8
Depreciation				
Equipment Leased to Customers	\$ 312,234	\$ 461,312	\$ 691,128	\$ 999,485
Plant and Equipment	477,760	450,868	454,399	434,194
Earnings before Taxes on Income	9,700,934	7,185,551*	5,488,035	6,866,271
Per cent to Sales	12.9	12.3	13.4	14.6
Net Earnings	\$ 5,670,934	\$ 4,419,551*	\$ 2,993,035	\$ 3,674,271
Per cent to Sales	7.5	7.5	7.3	7.8
Per Share Outstanding	\$ 2.10	\$ 1.63*	\$ 1.11	\$ 1.36
*Includes Extraordinary gain 1977				
Capital Investment in Year				
Equipment Leased to Customers	\$ 809,291	\$ 93,541	\$ 91,446	\$ 226,910
Property, Plant and Equipment	1,406,844	487,349	327,018	310,015
Financial Position Year-End				
Total Assets	\$57,125,200	\$46,574,491	\$44,496,305	\$43,168,288
Working Capital	38,115,160	34,725,033	31,108,456	28,294,922
Current Ratio	4.0 to 1	6.3 to 1	5.1 to 1	4.5 to 1
Installment Contracts Receivable	\$15,283,484	\$14,583,474	\$14,472,937	\$17,656,167
Equipment Leased to Customers — Net	932,665	847,494	1,292,459	2,239,625
Property, Plant and Equipment — Net	5,389,539	4,473,602	4,501,418	4,629,361
Shareholders' Equity	43,919,064	39,465,729	36,196,133	34,285,408
Book Value per Share	16.23	14.59	13.38	12.67
Employment				
Number of Employees at Year-end	1008	779	792	635
Shareholders				
Number of Shareholders	419	428	425	406
Dividend per Share	\$.45	\$.42 ^{1/2}	\$.40	\$.40
**Includes .20 interim 1972				

1974	1973	1972	1971	1970	1969
\$60,073,980	\$51,031,753	\$40,609,738	\$31,789,041	\$25,643,625	\$28,967,895
2,049,814	1,464,868	1,684,879	1,732,102	1,700,034	1,457,509
46,237,615	39,338,356	30,896,381	23,963,131	19,319,712	21,734,756
76.9	77.0	76.1	75.3	75.3	75.0
\$ 3,327,728	\$ 2,882,982	\$ 2,328,839	\$ 2,217,022	\$ 1,954,724	\$ 2,072,844
5.5	5.6	5.7	7.1	7.6	7.2
\$ 1,164,293	\$ 1,323,637	\$ 1,115,512	\$ 1,134,202	\$ 1,126,380	\$ 977,428
481,757	382,910	346,739	374,414	349,711	332,633
9,539,837	7,687,493	6,946,136	5,145,776	3,682,607	4,485,393
15.9	15.1	17.1	16.2	14.4	15.5
\$ 5,388,837	\$ 4,260,493	\$ 3,597,136	\$ 2,501,776	\$ 1,709,607	\$ 2,129,393
9.0	8.3	8.9	7.9	6.7	7.4
\$ 1.99	\$ 1.57	\$ 1.33	\$.92	\$.63	\$.79
\$ 404,096	\$ 2,490,012	\$ 1,532,537	\$ 1,537,623	\$ 1,779,590	\$ 1,539,963
424,063	1,121,288	718,624	241,156	194,956	384,599
\$49,429,223	\$41,022,816	\$35,063,723	\$30,784,211	\$30,582,683	\$32,168,250
25,054,640	19,713,525	18,625,830	17,339,313	14,971,346	13,650,970
2.5 to 1	2.7 to 1	3.1 to 1	3.7 to 1	2.8 to 1	2.2 to 1
\$17,545,115	\$14,404,473	\$13,001,551	\$13,025,951	\$14,423,000	\$14,102,500
3,417,789	4,694,717	3,696,762	3,410,368	3,588,896	2,989,117
4,766,718	4,829,978	4,097,745	3,728,400	3,869,507	4,034,112
30,707,047	26,400,520	23,222,337	21,068,281	18,626,449	16,976,786
11.35	9.75	8.58	7.79	6.88	6.27
966	1145	1001	841	653	826
417	394	331	296	327	349
\$.40	\$.40	\$.53**	\$.25	\$.25	\$.25

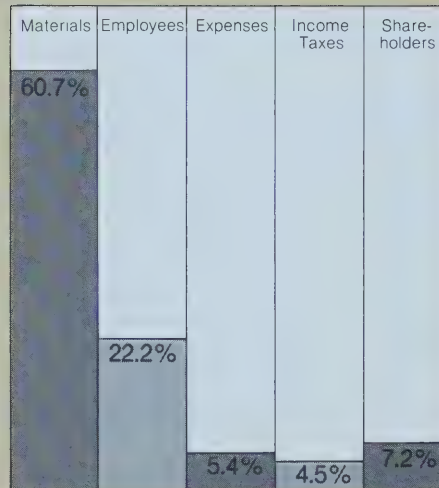
Revenue Distribution*

*Revenues include sales plus finance and other interest earned in each of the periods.

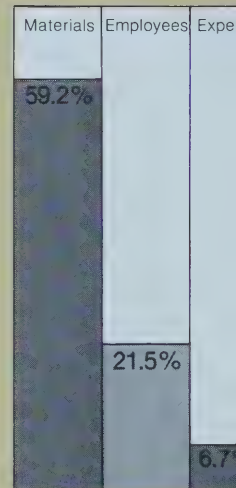
1978



1977



1976



Materials

Raw materials, component parts, accessories and trade-in units for resale

Employees

Wages, salaries and benefits

Expenses

Operating and general expenses including depreciation and interest expense

Income Taxes

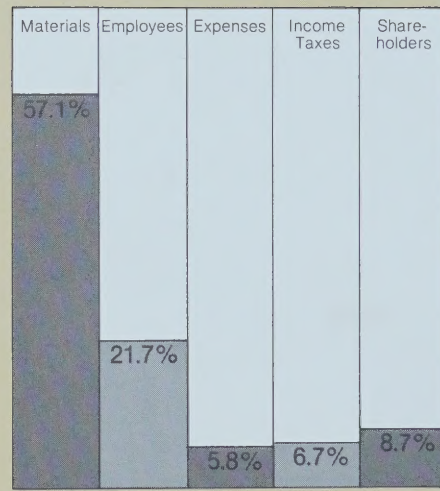
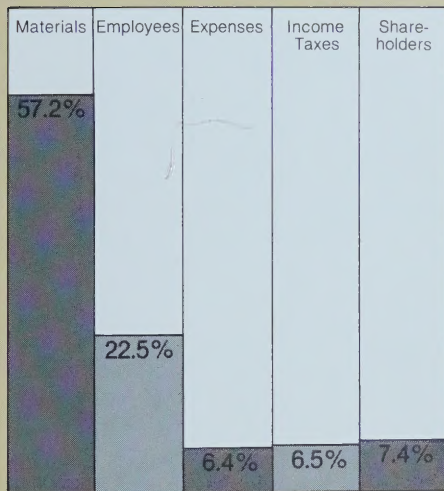
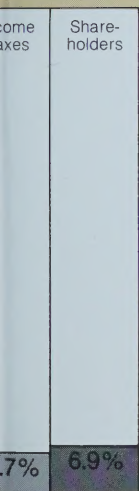
Federal and provincial taxes on income

Shareholders

Net earnings after taxes available for dividends and reinvestment for future growth

1975

1974



Fruehauf — Coast to Coast

▲ Head Office

2450 Stanfield Road
Mississauga, Ontario

■ Sales and Service

Quebec
Montreal
Toronto
London
Winnipeg
Calgary
Edmonton
Vancouver

● Distributors and Dealers

Pasadena
Dartmouth
Saint John
Fredericton
Ottawa
North Bay
Kitchener
Sarnia
Windsor
Prince Albert
Saskatoon
Whitehorse

Products

Vans

Dry Freight — Smooth and
Beaded Panels
Insulated-Refrigerated
City Delivery
Furniture
Livestock
Grain Haul
FRP Type
Wedge Type

Platforms

Stake and Rack
Dumps
Container Chassis
Dollies
Truck Bodies
Tanks — Steel, Aluminum and
Stainless Steel
Liquid Products:
Petroleum
Hot Material
Chemical
Food Products
Dry Flowable Bulk Products:
Cement
Food Products
Aggregates
Construction
Carryalls — 15 to 100 ton
Oilfield Floats
Tilt Decks



Directors and Officers



Directors

T.J. Reghanti*
President of the Company and
Vice President and General Manager,
Fruehauf Division, Fruehauf Corporation,
Detroit, Michigan

D.A. Grinstead
Vice President of the Company,
Toronto, Ontario

W.T. McDougall
Vice President-Finance of the Company
Toronto, Ontario

T.N. Combs
Secretary of the Company and Vice President,
General Counsel and Secretary, Fruehauf
Corporation, Detroit, Michigan

F.P. Coyer, Jr. **
Acting President and Chief
Executive Officer, Fruehauf Corporation,
Detroit, Michigan

R.J. Telford
Retired: former Vice President of the Company,
Toronto, Ontario

R.D. Rowan
Resigned during 1978 year

W.E. Grace
Resigned during 1978 year

* Appointed President during 1978 year

**Appointed to the Board during 1978 year

Officers

T.J. Reghanti, President
D.A. Grinstead, Vice President
W.T. McDougall, Vice President-Finance
T.N. Combs, Secretary
B.A. West, Controller
A. Purdon, Assistant Secretary

Transfer Agents and Registrar

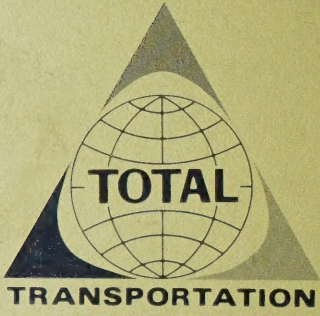
National Trust Company
Toronto and Montreal

Solicitors

Borden & Elliot
Toronto, Ontario

Auditors

Touche Ross & Co.
Toronto, Ontario



FRUEHAUF